

Message Text

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INFO AMEMBASSY TOKYO

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TAGS: ECON, OECD, JA

SUBJECT: EDRC REVIEW OF JAPAN

REFS: (A) TOKYO 8033

(B) TOKYO 8140

1. WITH REGARD TO THE "MAIN ISSUES; DOCUMENT PREPARED BY THE SECRETARIAT, THERE IS NO MENTION OF THE RECENT ACCELERATION IN CONSUMER PRICES. AFTER RISING BETWEEN 0.3 AND 0.5 PER CENT ON A MONTH-TO-MONTH BASIS DURING DECEMBER

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1974-FEBRUARY 1975, THE NATIONAL CPI ROSE 1.0 PER CENT

IN MARCH AND 2.2 PER CENT IN APRIL. IN MAY, THE TOKYO CPI ROSE 1.0 PER CENT OVER APRIL. A QUESTION MIGHT THEREFORE BE RAISED AS TO HOW THIS RECENT ACCELERATION OF PRICES--IF CONTINUED--WILL AFFECT THE GOVERNMENT'S ECONOMIC POLICIES AND WHETHER THE 9.9 PER CENT OR LESS PRICE TARGET FOR MARCH 1976 IS SERIOUSLY THREATENED BY THESE LATEST DEVELOPMENTS.

2. FOLLOWING ARE COMMENTS ON DRAFT ECONOMIC SURVEY:

A. EXISTENCE OF EXCESS CAPACITY IMPLIES THAT MODERATE INCREASE IN MONEY SUPPLY COULD POSSIBLY BE EFFECTED WITHOUT RENEWING INFLATIONARY SPIRAL, ALTHOUGH OPPOSITE

EFFECT ALSO POSSIBLE THAT EXPANSION AT THIS TIME COULD RELEASE LATENT INFLATIONARY PRESSURES. WE ALSO NOTE THAT MONETARY RESTRAINT DID NOT INHIBIT EXPANSION OF FIXED INVESTMENT IN KEY INDUSTRIES SUCH AS IRON AND STEEL. YOU SHOULD QUESTION JAPANESE ON THEIR EVALUATION OF STIMULATIVE IMPACT OF RECENTLY ADOPTED POLICY MEASURES (REF B) AND ASK WHETHER THEY CONSIDER THESE MEASURES AS ALTERNATIVES TO A MORE EXPANSIVE MONETARY POLICY. THIS APPROACH IS CONSISTENT WITH THAT SUGGESTED REF A PARA 5 WHICH YOU MIGHT AT YOUR DISCRETION USE WITH JAPANESE IN ADVANCE OF MEETING.

B. OFFICIAL ENCOURAGEMENT OF FOREIGN BORROWING SUPPORTED BY TIGHT MONEY HAS RESULTED IN SOME APPRECIATION OF YEN AND IN RESERVE ACCUMULATION. YOU MIGHT QUESTION JAPANESE CONCERNING EXCHANGE RATE AND RESERVE TARGETS IN THE EVENT OF CONTINUED SHORT TERM CAPITAL INFLOWS.

C. IN PARAGRAPH 64 ON PAGE 45, THE SECRETARIAT STATES THAT THERE WILL BE ONLY A MODERATE RISE IN PRIVATE CONSUMPTION IN 1975, PARTLY BECAUSE OF HIGHER TAXES. THIS STATEMENT SEEMS INCONSISTENT WITH THE FACT THAT PERSONAL INCOME TAXES AND INHERITANCE TAXES FOR 1975 (SEE PP. 30-31) HAVE BEEN REDUCED.

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D. THE SECRETARIAT FORESEES A DETERIORATION IN LABOR MARKET CONDITIONS IN 1975, BUT THIS SEEMS TO DISREGARD THE LATEST DATA SHOWING A LEVELING OFF FOR TWO MONTHS (FEBRUARY-MARCH) IN THE RATIO OF JOB OFFERS TO JOB SEEKERS.

E. GOJ PUBLIC WORK EXPENDITURES ARE EXPRESSED AS PERCENTAGES OF FUNDS APPROPRIATED. WOULD LIKE FURTHER

INFORMATION ON YEN MAGNITUDES INVOLVED AND EVALUATION
OF CONTRIBUTION TO RECOVERY. WE UNDERSTAND, HOWEVER,
THAT REAL VALUE OF GOJ AGGREGATE EXPENDITURES HAS IN FACT
INCREASED. INGERSOLL

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